Proposed Backstop Financing Structure for New Generation Development in California

Workshop Discussion Document

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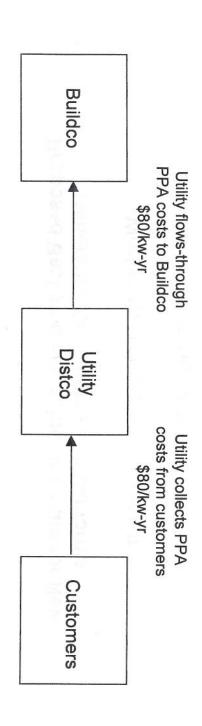
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Coalition Transition Proposal for Financing New Generation Development

Values are illustrative only

Assumptions:

- 500mw peaking plant
 Requires 10 yr PPA at \$80/kw-yr to build
- Customers receive 500mw of RA, tolling rights to energy and A/S for 10 yrs; allocated proportionally to all bundled and non-bundled customers (same as Coalition proposal)



Alternative Backstop Financing Structure for New Generation Development

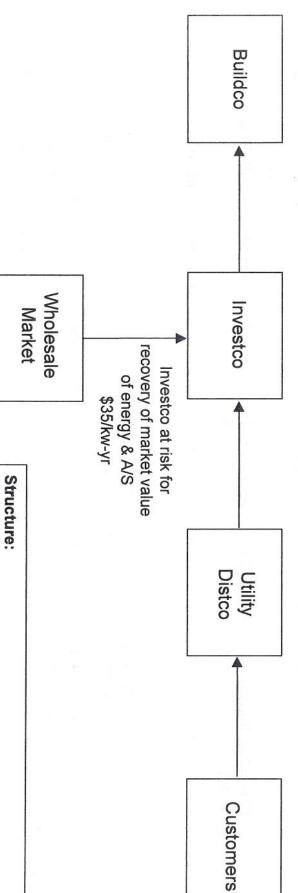
Values are illustrative only

with Buildco; sufficient to enable Investco enters into 10-yr hedge Buildco to obtain financing \$80/kw-yr Investco

backstop capacity charge revenues to Investco Utility flows-through

\$45/kw-yr

backstop capacity charge from customers Utility collects \$45/kw-yr



Assumptions:

- 500mw peaking plant
- Requires 10 yr hedge at \$80/kw-yr to build
- Market value of energy and A/S \$35/kw-yr

- Investment company (Investco) enters into 10 yr hedge with generation developer (Buildco); price = \$80/kw-yr
- Investco receives backstop capacity charge revenues of revenues and flows through to Investco \$45/kw-yr for 10 yrs; UDC collects backstop capacity
- Investco owns rights to energy and A/S revenues from the market transactions plant; at risk for recovering \$35/kw-yr hedge value through
- Customers receive 500mw of RA value for 10 yrs; RA allocated proportionally to all bundled and non-bundled customers (same as Coalition proposal)

Benefits of Proposed Alternative Backstop Financing Structure

- Reduces costs and risks for ratepayers
- Ratepayers' long-term, fixed obligation is to backstop capacity charge component only
- Remaining costs of capacity and energy can be optimized through LSEs' competitive market purchases
- Doesn't require reliance on utility balance sheet
- baseload plants since market value of energy covers larger portion of fixed costs) Targets the level of backstop capacity payment based on technology (lower backstop charge for
- Commitment and dispatch of plant is market-based, rather than cost-based (eliminates concerns about regulated assets competing against market-based assets for energy sales)
- Encourages competition on two levels:
- Competition among Buildco's; puts downward pressure on development costs
- payments through competitive market transactions and downward pressure on backstop capacity Competition among Investco's; puts upward pressure on portion of total cost that is borne
- Eliminates concerns about utilities serving as backstop providers of new generation
- Can be implemented as an alternative financing structure in the RFO process; can be considered alongside offers based on Coalition's proposed structure